Great Lakes Paper
Annual Report 1975


File

KRAFT PULP MILL EXPANSION

Our new kraft pulp mill is shown on the front cover in an early stage of construction as it takes shape around the existing kraft mill buildings. The numbered captions below, which are keyed to the opposite photograph, describe some of the main features of the new mill. Most of the steelwork has now been closed in and installation of internal machinery and equipment is well in hand.

The basic pulping process outlined in the following captions is similar to our existing kraft pulp mill operation except for the closed cycle concept referred to below in item 5.

1. This clarifier, or settling tank, is part of the installation that will be used to manufacture cooking liquor required in the pulping operation. Chemicals used in the cooking liquor will be processed for reuse in a three-stage recovery cycle referred to below in items 2 and 4.

2. The new digester can be seen rising in front of the existing digester. This facility will convert wood chips into pulp on a continuous basis by means of heat and an alkaline cooking liquor, known as white liquor, which will be produced in the second stage of the chemical recovery cycle. Another view of the new digester, with additional information, appears on page 4.

3. This building will house the controls for the pulping operation, as well as other related equipment.

4. The recovery boiler located in this building will burn off the waste materials in the concentrated spent liquor, known as black liquor, which will result from the pulping process. (Earlier steps in processing black liquor are discussed in items 10, 11 and 12.) The chemical residue recovered from the boiler will be reactivated to form green liquor in the first sequence of the chemical recovery cycle.

5. Our salt recovery system is being built in this location. This will form an important step in the new closed cycle process which will essentially eliminate the need for water pollution control facilities. The closed cycle concept is discussed in Results in Detail.

6. No. 5 turbine will be housed in this building to provide an additional 34,000 kilowatts of electricity.

7. The precipitators will remove solid particles from the furnace exhaust as it leaves the recovery boiler on its way up the main stack. The recovered material will be returned to the recovery boiler.

8. No. 6 boiler is being installed here and will provide an additional 500,000 pounds per hour to our existing steam generating capacity. While the new boiler will be fired mainly with bark, it will have the capability of using other fuels as required.

9. The foundation for the new wood chip silo shown here will be similar to the structure on the right. This facility will provide a steady flow of wood chips to the digester.

10. In this location a six-stage evaporator installation will be constructed to concentrate the black liquor to about 50 percent solids prior to its entry into the recovery boiler.

11. The oxidation tower will form a key component in our environmental control system. Black liquor will be treated here for the removal of odors on its way to the evaporators.

12. This weak black liquor storage tank will hold the black liquor as it leaves the digester prior to entering the recovery phase.

13. This structure will house the bleach plant where a five-stage bleaching process will convert the brown stock pulp from the digester to market bleached kraft pulp.

14. The high density storage tanks shown here will hold the kraft pulp prior to the drying operation.

15. This is the machine room where the kraft pulp will be dried in sheet form for shipment to our customers.

As well as the construction shown here, other expansion projects are taking shape elsewhere on our mill site. These include expansion of the woodroom, shown on page 4, as well as the addition of facilities to handle wood chips and bark. We are also constructing facilities to treat feedwater for the boilers, a chemical plant to generate chlorine dioxide for the bleaching process, a substation, or distribution centre, for electrical energy, an additional pulp storage warehouse and an additional wood sorting station to meet the needs of increased stud lumber production.


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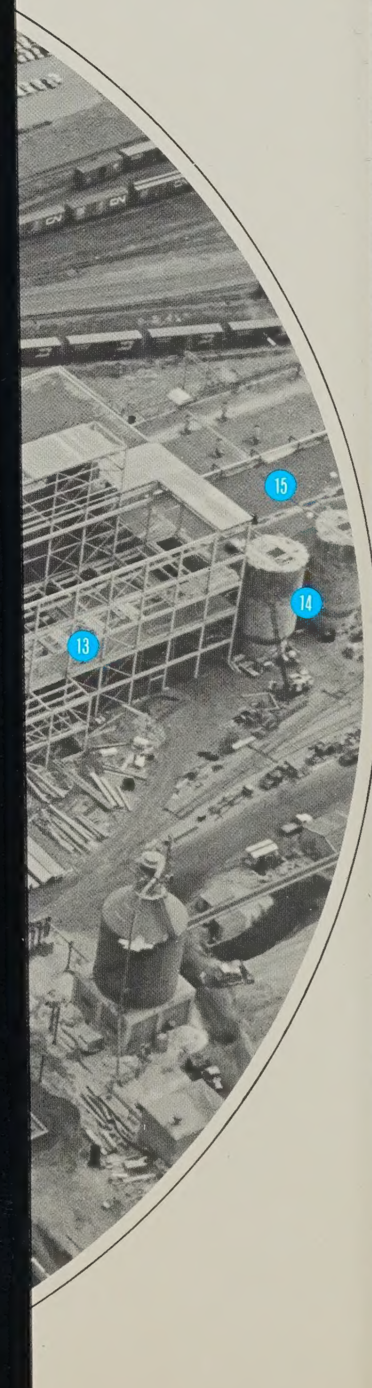


Explanation of Cover Picture

HIGHLIGHTS OF '75

1. Net earnings dropped in 1975 to \$6.4 million or \$1.78 a share from a record \$14.9 million or \$4.14 a share in 1974 due to a strike by the Canadian Paperworkers Union which shut down our entire operation from September 5, 1975 until February 23, 1976, following a settlement of the dispute.
2. Earnings were reduced by an estimated \$3.75 a share in 1975 as a result of the strike.
3. Our pulp and newsprint shipments of 377,184 tons in 1975 were down from 524,345 tons in 1974 because of the strike, but building products shipments were higher, despite the shutdown, due to expansion of our stud lumber capacity and the addition of our first waferboard shipments.
4. Net sales of \$105.8 million in 1975 were down from \$114.4 million in 1974.
5. The expansion of our stud lumber capacity to 100 million board feet and the new particleboard-waferboard plant were completed during the first half of 1975, and construction of the new 250,000 ton-per-year kraft pulp mill made good progress despite some delays due to work stoppages.

SCOREBOARD

'000 omitted	1975	1974
Net sales: Pulp and paper	\$100,508	\$110,977
Building products	5,259	3,465
Total	105,767	114,442
Operating profit	24,494	35,441
Earnings before income taxes	11,815	26,625
Income taxes	5,388	11,687
NET EARNINGS: Total amount	6,427	14,938
Per share	1.78	4.14
Cash flow	23,848	30,778
Expenditures on fixed assets	76,540	49,997
Working capital (Deficiency) at year end	(16,296)	2,726

Ten-year shipment and financial summaries are shown on pages 21, 22 and 23.

On Inside Pages

Dollars in this report are Canadian unless otherwise identified. Amounts per share are based on total shares issued up to the end of the respective year.

Our Company

The Great Lakes Paper Company, Limited was incorporated under the laws of Ontario in 1936. We manufacture newsprint paper, bleached kraft pulp, unbleached sulphite pulp, stud lumber, particleboard and waferboard. Our mill and head office are at Thunder Bay, Ontario. Mailing address: Box 430, Thunder Bay, Ont., P7C 4W3.

Newsprint Services

Lake Superior Newsprint Co., Chicago, servicing of newsprint paper contracts: BRUCE FALLOWS, *president;* W. D. FROST, J. H. NETHERLAND and O. E. BABCOCK, *vice-presidents.*

Sale of Pulp

Lake Superior Pulp & Paper Inc., Chicago and White Plains, N.Y., sale of kraft and sulphite: BRUCE FALLOWS, *president;* R. L. NASH, *executive vice-president.*

Agents and Registrar

Our common share transfer agents are The Royal Trust Company, Toronto, Montreal, Calgary and Regina, and the Bank of Montreal Trust Company in New York. Our registrar is The Canada Trust Company, Toronto, Montreal, Calgary and Regina.

Shareholders' Meeting

Our shareholders' meeting will be held at 11:30 a.m. Eastern Standard Time in the Tudor Room of the Royal York Hotel, Toronto on Wednesday, April 14, 1976.

Board of Directors at December 31, 1975

C. R. BOWLES *vice-president, finance, Great Lakes Paper Company*	Thunder Bay	1964
KEITH CAMPBELL *vice-president, Canadian Pacific Limited*	Montreal	1971
*C. J. CARTER *president, Great Lakes Paper Company*	Thunder Bay	1947
*PERCY M. FOX *chairman of the board, Great Lakes Paper Company*	Bermuda	1952
C. J. JEFFERY *executive vice-president, Great Lakes Paper Company*	Thunder Bay	1947
*IRWIN MAIER *chairman, The Journal Company (publishers of The Milwaukee Journal)*	Milwaukee, Wisconsin	1968
*R. G. MEECH, Q.C. *barrister and solicitor*	Toronto	1936
JOHN N. PATERSON *executive vice-president and general manager, N. M. Paterson & Sons Limited*	Thunder Bay	1975
B. H. RIDDER, JR. *vice-chairman of the board, Knight-Ridder Newspapers, Inc.*	St. Paul, Minnesota	1957
MURRAY D. SEELEY *executive vice-president, Great Lakes Paper Company*	Thunder Bay	1956
*IAN D. SINCLAIR *chairman and chief executive officer, Canadian Pacific Limited*	Montreal	1969
W. J. STENASON *executive vice-president, Canadian Pacific Investments Limited*	Montreal	1972
G. GORDON STRONG *chairman of the board, Thomson Newspapers, Inc.*	Canton, Ohio	1968
J. G. TREZEVANT *executive vice-president, Field Enterprises, Inc., Newspaper Div.*	Chicago, Illinois	1975

**Members of the Executive Committee*

Years denote beginning of connection with the company.

Management at December 31, 1975

PERCY M. FOX, *chairman of the board*	1952
C. J. CARTER, *president*	1947
C. J. JEFFERY, *executive vice-president*	1947
MURRAY D. SEELEY, *executive vice-president*	1956
W. J. STENASON, *vice-president*	1972
C. R. BOWLES, *vice-president, finance*	1964
M. G. REA, *secretary*	1969
K. E. WINROW, *comptroller*	1971
D. D. MORROW, *assistant treasurer*	1964
F. H. TOLLEFSEN, *manager, information services*	1966

REPORT TO THE SHAREHOLDERS

Like most others in the Canadian pulp and paper industry, our earnings in 1975 were seriously marred as a result of the prolonged strike by the Canadian Paperworkers Union (CPU). With most pulp and paper mill labor contracts scheduled to expire in 1975, the CPU announced early that year their intention of seeking a 41 percent increase in wages for their membership based on a one-year contract. Apparently, they chose to ignore the obvious signs that pulp and paper markets were weakening. The union also paid little heed to repeated publicized statements by the industry, such as our remarks to the shareholders' annual meeting in 1975, that such wage demands were out of line with the realities of the industry's economic position, particularly in relation to the U.S. pulp and paper industry.

It was pointed out in a series of industry-sponsored advertisements in June 1975 that the average hourly wage for Canadian pulp and paper workers was 15 percent higher under existing contracts than in the U.S. and the gap was widening. Contract settlements in the U.S. pulp and paper industry in 1974 were based on a ten percent annual increase in each of the following three years. If the trend in Canadian settlements since 1969 was to continue, our hourly labor rates would be some 30 percent higher than those in the U.S. by 1977. The advertisements went on to state that such wage rates would cripple the industry's ability to compete in its major markets, since there are no offsetting savings in taxation or in the cost of wood, transportation, machinery and materials.

In view of this serious threat to the competitive position of our company, there was no other course than to take a strong stand against such excessive demands by the CPU.

Interim Settlement Offered

In our negotiations with the union we made an interim offer providing for wage increases and benefit improvements together with a commitment to match any general wage pattern that developed in the eastern Canadian pulp and paper industry. Subsequent developments have indicated that this offer, for the first year, was in the range of the maximum settlement acceptable by the Anti-Inflation Board. The union, however, turned down our offer and took strike action which shut down our entire operation from September 5, 1975 to February 23, 1976.

The announcement of wage and price guidelines by the federal government in October 1975 introduced a new factor into the stalled negotiations with the CPU. Detailed regulations were not forthcoming until mid-December 1975 and this delay was no doubt responsible for unnecessarily prolonging our negotiations with the union.

Late in December the Anti-Inflation Board indicated a settlement pattern that would be acceptable for eastern Canadian pulp and paper companies. In informal meetings with union representatives in early January 1976, we indicated we were prepared to offer them this pattern, but they turned it down as did CPU locals in other parts of Ontario.

Late in January, several companies in Quebec made settlements with the CPU based on the Anti-Inflation Board's formula despite the Ontario locals' continued resistance to such terms. On January 20, we attempted once again to negotiate with CPU representatives. These negotiations eventually led to a settlement of the strike in late February.

Widespread Economic Repercussions

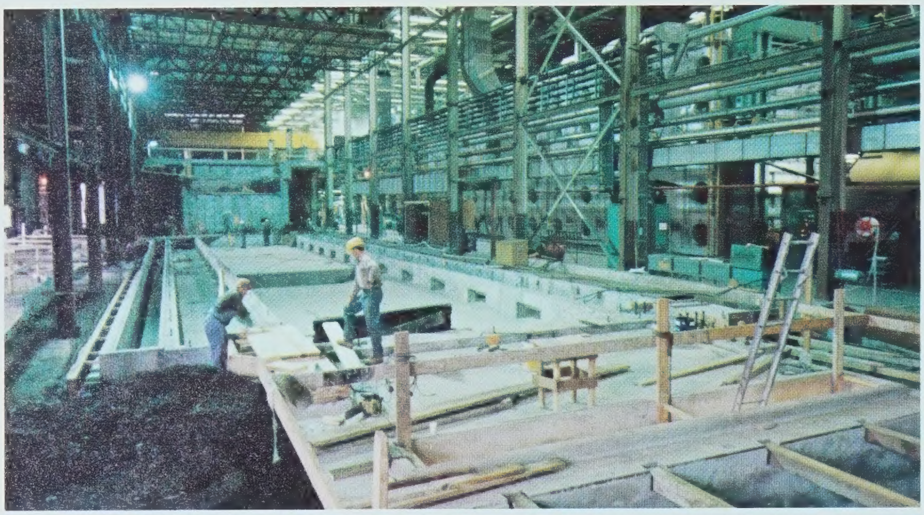
This is the most extensive and costliest strike our company, and indeed the industry, has ever faced and it has caused serious difficulties for every company involved. This is evidenced by the fact that we have had to arrange additional external financing for our expansion program as discussed on page 5. There are also many thousands of employees, whether or not they were on strike, who suffered a serious loss of wages that can never be recovered. Economic repercussions were also felt by customers, suppliers, communities and all those who are dependent on the pulp and paper industry.

The lesson to be learned from this tragic experience is that management and labor, in this period of changing values, must develop greater mutual understanding or the free-bargaining system will be in serious jeopardy. Our management will do everything it can to improve the rapport with employees through better communications and a broader appreciation of their needs and aspirations. Unions, on the other hand, must be prepared to improve their understanding of the company's needs and develop a more realistic appreciation of the economic forces that govern our industry.

On behalf of the directors,

CHARLES J. CARTER, *president*

February 23, 1976.



Bleached kraft pulp in sheet form will be processed in the new pulp dryer facility to be erected on the foundations shown in the upper left picture. The existing dryer can be seen through the steel uprights and piping fixtures on the right.

The picture opposite shows the new continuous digester taking shape in front of the existing digester building. This new unit will be capable of producing 800 tons of unbleached pulp a day from wood chips in the first stage of the kraft pulp manufacturing process. Capacity of the existing digester is 600 tons per day. The unit was completed late in 1975 and capped at a height of 200 feet.

Above is a view of the two drums that will remove bark from both hardwood and softwood logs for use in the new kraft pulp mill. The drums are 12½ feet in diameter and 120 feet long.

1975 Results in Detail

EARNINGS DROP—FOUR MONTHS' PRODUCTION LOST

Net earnings were $6.4 million or $1.78 a share in 1975 versus $14.9 million or $4.14 a share in 1974. The drop resulted from a strike by the Canadian Paperworkers Union which began on September 5, 1975 shutting down our entire operations for the balance of the year and on into 1976. Operations resumed when the agreement discussed below brought an end to the strike.

Labor Settlements

On February 23, 1976 we resumed operations following the ratification of a three-year agreement by all unions representing our mill workers. The agreement, which is retroactive to May 1, 1975, provides wage increases of approximately 14 percent for the first year, ten percent for the second and eight percent for the third. This agreement is in line with other pulp and paper settlements in eastern Canada and is consistent with the federal government's anti-inflation program. It must, however, be submitted to the Anti-Inflation Board for approval.

Negotiations with the union representing our office workers will commence shortly.

The agreement with the union representing our woods workers expires on August 31, 1976.

1975 Earnings Reduced by an Estimated $3.75 a Share

Had we been able to maintain full production during the last four months of the year, it is estimated that our earnings would have been $3.75 a share higher in 1975. Our earnings performance up to the end of August 1975 was ahead compared with the same period of 1974. As a result of reduced consumption and a large build up of inventories by customers and producers, it is possible that production curtailments might have been necessary in the latter part of the year.

Financing of Expansion Program

Financing plans for our expansion were structured to include full use of internally-generated funds, with the balance of up to $90 million to be provided by external sources. In order to meet these requirements and to minimize dilution of equity, it was decided that dividends could not be paid during the expansion period.

According to our original plans, external financing has been arranged through an issue of first mortgage bonds, described on page 8, a term loan from Canadian Pacific Securities Limited and lease financing for woodlands portable camps and mobile equipment. In addition, we have established increased bank lines of credit for working capital requirements.

The impact of the strike on cash flow in 1975 is estimated to have been in excess of $20 million and the continuation into 1976 has increased this amount. Due to the reduction in internally-generated funds available to finance the expansion program, arrangements for additional external financing were made with our bankers in early 1976.

Shipments of Our Major Products Lower

As a result of the strike, newsprint shipments were 266,949 tons compared with 347,251 tons in 1974, a decrease of 23.1 percent and

A thriving young stand of jackpine established as a result of regeneration treatment in 1968 by a method known as scarification, which involves dragging heavy anchor chains over the cutover area with a bulldozer. Other methods of regeneration include seeding, hand planting of nursery grown trees and modified cutting systems discussed on page 11.

chemical pulp shipments of 110,235 tons were 37.8 percent lower than 177,094 tons in 1974. Shipments in 1974 were affected by a strike of woods workers in the latter part of that year.

Despite the loss of all production during the period of the strike, stud lumber shipments of 32.4 million board feet were higher than 31.6 million board feet in 1974 due to an increase in production capacity early in 1975, as well as an improved market. Shipments of waferboard, which began late in the second quarter, totalled 82.1 million square feet on a 1/16-inch basis.

Net Sales Reduced

Net sales were $105.8 million in 1975 compared with $114.4 million in 1974. Newsprint and pulp net sales were $100.5 million, nine percent lower than $111 million in 1974. Net sales of building products, however, increased in 1975 to $5.3 million over $3.5 million in 1974. This improvement resulted from our first shipments of waferboard, as well as increased stud lumber shipments and prices.

Higher prices for both newsprint and pulp went into effect at the beginning of the year. Shipments of newsprint remained strong up to the mill shutdown in September during which period newspaper publishers were building large inventories in anticipation of a strike in the Canadian newsprint industry. Despite a generally weak market for pulp during 1975 our shipments of chemical pulp remained strong until the shutdown.

From a weak beginning in 1975, the market price for stud lumber rose to a high point in May and then settled at a relatively strong level throughout the latter half of the year.

Prices for waferboard were weak at the start of 1975 but improved steadily as the year progressed.

The average premium on the U.S. dollar was about two percent in 1975 compared with approximately the same percentage in 1974. Since the major portion of our sales is in the U.S., the exchange rate has an important bearing on our earnings.

Taxes Deferred

Because of reduced earnings for the year and the heavy outlay for capital expenditures on our construction program, much of which is eligible for accelerated rates of write-offs for tax purposes, we were able to effect significant cash flow benefits by deferring taxes for 1975 and recovering the taxes paid for 1974. These cash flow benefits are essential to the financing of the expansion program. Explanation of our policy on deferred income taxes is given in the Notes to Consolidated Financial Statements on page 18.

This map shows our company's 14,485 square miles of forest area, which we manage on a sustained yield basis under long-term leases from the Ontario Government. This area will provide us with sufficient wood to meet the full requirements of our expanded operations. To open and harvest these resources we have built the camps shown on the map, as well as some 1,400 miles of all-weather roads. These roads link the woods operation with highways and rail lines, both of which are used to deliver wood to our mill in Thunder Bay.

In 1975 our effective tax rate increased marginally. Our earnings continue to benefit from the reduced rate of federal taxes on manufacturing and processing profits.

Working Capital Deficiency

We had a working capital deficiency of $16.3 million at the end of 1975 compared with working capital of $2.7 million in 1974. This resulted from the continued heavy outlay for the expansion program while cash flow was interrupted in the latter part of the year due to the strike.

Price Level Accounting

In line with generally accepted accounting principles, our financial statements reflect historical dollar values. Due to unprecedented inflation in recent years there has been much discussion of the merit and methods of converting historic values to current values by application of either a general price level indicator or a replacement value appraisal. Although some companies are currently providing supplementary information on this subject, we do not feel that there is yet general acceptance of this principle or that the information would be meaningful in our case.

Long-Term Debt

The long-term debt balance on December 31, 1975, after deducting the amount due in 1976 was $65.1 million. During the year the Series A mortgage bonds and Series C debentures were fully retired. An issue of $35 million 11¼ percent First Mortgage Sinking Fund Bonds, Series C, was completed on January 15, 1975. The proceeds of $34.2 million were used for the expansion program. There were no drawdowns in 1975 under the Canadian Pacific Securities Limited term loan. We expect to make use of the remaining $27 million in 1976 bringing our total borrowings from this source to $40 million.

Expansion Program

In 1973 we undertook a major expansion and diversification program which, in its entirety, is expected to cost approximately $178 million when the new kraft pulp mill starts up in the latter part of 1976. The original completion date of mid-1976 was revised due to a 12-week construction strike during the summer of 1975 and a further interruption during the first few weeks of the strike by our mill employees.

The program calls for construction of a 250,000 ton-per-year bleached kraft pulp mill to be integrated with the existing 200,000 ton-per-year mill, the construction of a particleboard-waferboard plant and the expansion of stud lumber capacity. The particleboard-waferboard plant has been completed and went into operation in the second quarter of 1975. Following a break-in period we began producing on-grade waferboard for market in June and in August we undertook a test run of particleboard to check out this facility. Due to more favorable market conditions for waferboard we returned to the manufacture of this product until the shutdown in September.

The first phase of our stud mill expansion, which increased capacity to a nominal rating of 100 million board feet per year, was completed early in 1975 and construction of facilities, which will further increase capacity, is nearing completion.

Work on the new kraft pulp mill is progressing satisfactorily. All buildings are nearing completion and much of the major equipment is installed. Piping and electrical installation work is well in hand and we expect some areas of the mill, such as the new wood and chip handling facility, will be ready for operation early in 1976.

On the left is a view of our stud lumber mill showing the new sorting line in the background. This is part of the additional facilities that were installed to increase the mill's annual capacity from 50 million to 100 million board feet.

In the particleboard-waferboard plant below, wafers of poplar coated with resin are shown leaving the forming station where they were spread in layers to form a "mat". The mat moves on to the press where it is converted under heat and pressure into waferboard. A similar process using fine wood particles is used in the manufacture of particleboard.

To the end of 1975, $120 million had been spent on the expansion program. The total committed cost, comprising expenditures and outstanding orders, amounted to $138 million at December 31, 1975. We also spent $5.8 million in 1975 on additions and general improvements to existing mill and woods facilities.

Closed Cycle System Announced

In August 1975 we decided to proceed with the closed cycle concept for our new kraft pulp mill, which is a major step forward in our continuing program to protect the environment.

The new system, which will cost an estimated $8 million to implement, will provide for recycling of the flow of pulp processing wastes within the mill and will virtually eliminate the need for water pollution control facilities. Only essentially clean water, used for cooling purposes, will be discharged to the receiving waters. While the overall system will be the first of its kind, we have already successfully used many of the fundamental principles associated with this process. The closed cycle concept was developed in Canada and has undergone extensive studies by the company's consulting engineers, equipment suppliers and both federal and provincial environmental authorities. Recycling the flow of pulp processing wastes will permit all streams containing contaminants to be re-used within the process. The new system will also enable our company to use considerably less water.

We believe that, despite the difficulties of starting up a new process of this nature on such a large scale, we will achieve a breakthrough in environmental technology which will circumvent the costly process of kraft mill effluent control with its many problems.

Environment Canada has agreed to participate in the financing of this new technology to the extent of $1.2 million under the federal government's Development and Demonstration of Pollution Abatement Technology program known as DPAT.

In 1975 we started up our new high-yield sulphite process which was a significant step in our program for the control of liquid wastes.

In all aspects of our operations we continue to seek ways of improving our environmental control systems in close co-operation with both federal and provincial ministries of the environment. It is our objective to meet present and foreseeable regulations governing effluent, air emissions, noise level and disposal of solid wastes.

Our Work Force

We were able to maintain the strength of our woodlands work force in 1975 at an adequate level until the shutdown in September as a result of more competitive wage rates and a continuing program of recruitment and training. Our recruiting program made use of a wide range of media including television, radio, newspaper advertising, films and exhibits which all highlighted the quality of woodlands accommodations, the variety of career opportunities available and the exciting challenges of modern logging operations.

With the temporary easing in the

These jackpine on our woodlands limits have reached maturity and are now ready to be harvested for the production of pulp, newsprint and lumber. Logs suitable for lumber production are directed to our stud mill, or other wood-using industries, in line with our policy to obtain maximum value from our wood resources.

manpower situation during the year we were able to evaluate and redesign our woodlands recruiting and training programs in preparation for the expansion of operations, discussed on the inside back cover, which will require a sizable addition to our employee body by the end of 1976. With the continuation of this program and regular contacts with educational institutions, as well as Canada Manpower, we expect to attract and retain the personnel we need to carry out a successful operation.

Our mill work force must also be expanded and we will reactivate our program to recruit and train a substantial number of qualified workers who will be needed to staff the new kraft pulp mill. This program was well in hand by the beginning of September 1975, but the work stoppage delayed our schedule.

As well as the necessary personnel to meet expansion requirements, there are indications that a number of mill and woodlands employees may have been lost as a result of the lengthy strike. Further intensification of our recruitment efforts will be required to bring the regular work force up to strength.

Our Forest Resources

Most of the wood fibre we use in our manufacturing operation comes from the forest limits shown on the map on page 7, which are licensed to us by the Ontario Government. Increased requirements for our expansion program will come from new harvesting areas now being opened on these limits as discussed on the inside back cover of this report. The product diversification accomplished by our expansion enables us to make more complete use of these resources, including hardwood species for the first time. A portion of our requirements will continue to be purchased from woodlot and sawmill operators in the Thunder Bay region.

We manage all our timberlands on a sustained yield basis, harvesting no more than the annual growth, in compliance with government requirements. Generally speaking, harvesting operations take place throughout our forest areas within a 20-mile radius of our camp locations.

An increasing proportion of cutover area is now treated to promote fast regeneration of desired tree species by a mechanical method known as scarification to facilitate natural seeding, by seeding areas that have been specially prepared or by planting nursery grown stock. In addition, we are experimenting with modification of cutting systems to induce natural regeneration on sites that are difficult to treat by any other means.

From 1971 to 1975, approximately 30,000 acres were treated for natural or artificial seeding and 16.7 million young trees were planted on 20,500 acres of cutover land on our limits under a co-operative regeneration agreement with the Ontario Ministry of Natural Resources.

The Anti-Inflation Program

Cost inflation continues to be a serious threat to the stability of the economy and the competitiveness of the Canadian pulp and paper industry. While we fully support the objectives of the federal government's anti-inflation program, there is an urgent need for

To attract and retain the personnel we need for our expanding woodlands operations, it is necessary to provide comfortable accommodations, good food and suitable recreational facilities. The top picture shows a kitchen-dining unit at one of our newer camps. An exterior view of the camp appears on the inside back cover.

Modern telecommunications are essential in today's highly mechanized woods operations. A new system now being installed in our woodlands will provide regular telephone service in every camp with access to radio telephone facilities connecting camp offices with mobile equipment. The lower photograph shows a radio telephone base station in a camp office.

the government to pursue fiscal and monetary policies consistent with these objectives and for all levels of government to practice spending restraints.

The anti-inflation guidelines limit profits on domestic sales and pending legislation will impose a special tax on export profits. Such a tax, we believe, can only serve to discourage exports and is detrimental to the national interest. Essentially all of our pulp and paper and a significant portion of our building products are sold in the export market and the special tax could limit our earnings growth.

While the tax has not yet been legislated and many details are incomplete, it has been indicated that we will be taxed 100 percent on any profits in excess of levels that prevailed before October 14, 1975. It has, however, been indicated that 90 percent of this tax will be refundable, dollar for dollar, against most capital expenditures. With our continuing high level of capital expenditures in 1976 and further capital expenditures at a reduced level in 1977 and 1978, the remaining years of the control program, it is expected that 90 percent of any special tax payable will be refundable. We also point out that the increase in our earnings base resulting from the

expansion program will enable an increase in earnings without attracting the special tax.

Market Outlook

In 1975, economic recovery in the U.S. was slower than originally anticipated and, as a result, newsprint consumption was lower than expected. With a gradual improvement expected in the U.S. economy, the Canadian Pulp and Paper Association estimates consumption of newsprint in the U.S. will reach 9.4 million tons in 1976 versus 9.1 million tons in 1975. While publishers' stocks at year end were at levels regarded as normal in the past, it is expected that inventories will be built to higher levels thereby adding to demand in 1976.

Looking ahead, we believe the prospects for newsprint are favorable. With relatively little new manufacturing capacity announced and the expectation of improving economic conditions, we anticipate a strengthening market for newsprint over the longer term.

The bleached kraft pulp market is expected to remain soft during the first half of 1976 as a result of depressed world economic conditions. With the anticipated improvement in the U.S. economy and the prospects of a similar trend elsewhere, it is expected that the market for kraft pulp will strengthen in the latter part of 1976 and should carry on into 1977. As the demand for fibre grows over the next few years, we can expect the market for kraft pulp to gain strength in view of the comparatively few announced capacity additions. Considering all factors, therefore, we believe that the long-term outlook for bleached kraft pulp is favorable.

The market for building products gained strength in the latter part of 1975 after a few years of low demand. The current trend is expected to continue as a result of a higher level of housing starts projected for 1976 and 1977. The increase in demand is expected to result in improved prices for building products.

Company Outlook

Despite the slow growth in our markets, we feel optimistic about our prospects for 1976. We will receive growing benefits from the building products diversification and we expect an increase in our kraft pulp shipments as a result of the start-up of the new kraft pulp mill. Our market for the new production is already established with contracts signed for the entire output. In assessing our prospects, however, we must take into account the softness in the markets for our major products, continued cost inflation and the uncertain effects of the federal government's anti-inflation program.

We will continue with efforts to improve productivity by increasing the efficiency of operations through updating existing facilities and mechanizing wherever possible. It is, however, beyond our power to control other factors that affect earnings such as the U.S. dollar exchange rate and the future course of taxes and other government charges which continue to undermine the competitive position of the Canadian pulp and paper industry in world markets.

In view of the anticipated improvement in our markets over the next few years and the completion of our expansion program, we look forward to the future with cautious optimism. While we realize there are uncertainties ahead and there may be temporary setbacks, we believe there are encouraging signs that we are on the threshold of a new period of solid growth.

GLOSSARY OF TERMS

NET SALES: The Canadian dollar proceeds from the sale of products after deducting costs of delivery to customers.

OPERATING PROFIT: Profit realized from manufacture and sale of products after deducting all costs except interest charges, depreciation and income taxes. Applies to operations only; does not include investment or other income.

DEPRECIATION: The distribution on a yearly basis of the original cost of a fixed asset (defined below) over its estimated useful life, which is written off as a deduction from earnings.

NET EARNINGS: Total income less all costs; the net amount available from the year's operations to pay dividends or retain for use in the business.

CASH FLOW: Total funds generated by operations in a year. In our case, cash flow includes net earnings and charges not affecting working capital; principally depreciation and deferred income taxes.

RETAINED EARNINGS: Accumulated total of annual net earnings since the start of the company (1936) less dividends to shareholders during the same period.

CURRENT ASSETS: Assets which, in the normal course, will be converted into cash or consumed in operations within the following year.

FIXED ASSETS: Assets, such as land, buildings and machinery, held for long-term use rather than for sale or consumption in operations.

CURRENT LIABILITIES: Amounts owed (including a portion of long-term debt) due for payment within one year.

LONG-TERM DEBT: Amounts borrowed for a term of longer than one year.

SINKING FUND: Amounts paid to independent trustees of our bond issues, as stipulated in the trust deeds of these issues, to provide annual instalments for their redemption.

WORKING CAPITAL: Amount by which current assets exceed current liabilities, both as defined above. This is a measure of working or operating resources.

BALANCE SHEET: Statement of financial position at a year end showing what is owned (assets of all kinds) versus what is owed (liabilities of all kinds) and shareholders' equity; set forth in accordance with The Business Corporations Act (Ontario). The word "Consolidated" means that all subsidiaries are included to show position of the enterprise as a whole.

SHAREHOLDERS' EQUITY: Value of the shareholders' ownership or interest in the company. Consists of share capital plus retained earnings and is the amount by which assets exceed liabilities.

AUDITORS' REPORT TO THE SHAREHOLDERS

To the Shareholders of The Great Lakes Paper Company, Limited

We have examined the consolidated balance sheet of The Great Lakes Paper Company, Limited and its subsidiaries as at December 31, 1975 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

THORNE RIDDELL & CO.
Chartered Accountants

Toronto, Ontario, January 23, 1976

EARNINGS

consolidated statement for years ended December 31 (thousands of dollars)

	1975	1974
Net sales: pulp and paper	$100,508	$110,977
building products	5,259	3,465
	105,767	114,442
Cost of sales	78,509	76,575
Selling and administrative expense	2,764	2,426
OPERATING PROFIT	24,494	35,441
Other income	59	184
	24,553	35,625
Interest (Note 9)	2,764	1,733
Bond issue discount and expense (Note 10)	812	—
Depreciation	9,162	7,267
EARNINGS before income taxes	11,815	26,625
Income taxes	5,388	11,687
NET EARNINGS for year	$ 6,427	$ 14,938
Net earnings per share	$ 1.78	$ 4.14
Net earnings per share fully diluted	$ 1.73	$ 3.92

RETAINED EARNINGS

consolidated statement for years ended December 31 (thousands of dollars)

Retained earnings at beginning of year	$50,577	$35,639
Net earnings for year	6,427	14,938
RETAINED EARNINGS at end of year	$57,004	$50,577

BALANCE SHEET

consolidated statement at December 31 (thousands of dollars)

Assets	1975	1974
CURRENT ASSETS		
Accounts receivable	$ 2,055	$ 11,206
Income taxes recoverable	2,706	564
Inventories:		
Finished goods	404	222
Pulpwood and sawlogs	16,142	8,748
Materials and supplies	8,583	6,791
Prepaid expenses	295	161
	30,185	27,692
FIXED ASSETS (Note 2)	284,242	207,999
Accumulated depreciation and depletion	109,381	100,444
	174,861	107,555
	$205,046	$135,247

Approved by the Board:

C. J. CARTER, *Director*

R. G. MEECH, *Director*

Liabilities	1975	1974
CURRENT LIABILITIES		
Bank indebtedness (Note 5)	$ 27,138	$ 3,470
Accounts payable and accrued charges	16,887	14,404
Sundry taxes payable	1,866	1,802
Current portion of long-term debt (Note 6)	590	5,290
	46,481	24,966
LONG-TERM DEBT (Note 6)		
First Mortgage Bonds		
4% sinking fund bonds, Series A, maturing 1975	—	3,750
8% sinking fund bonds, Series B, maturing 1989	17,650	18,200
11¼% sinking fund bonds, Series C, maturing 1995	35,000	—
Debentures		
5¾% serial debentures, Series C, maturing 1975	—	1,075
Term loan	13,000	13,000
	65,650	36,025
Portion due within one year	590	5,375
	65,060	30,650
DEFERRED INCOME TAXES	33,751	26,304
Shareholders' Equity		
Common shares without par value (Note 7)		
Authorized 4,500,000 shares		
Issued 3,610,029 shares	2,750	2,750
Retained earnings	57,004	50,577
	59,754	53,327
	$205,046	$135,247

CHANGES IN FINANCIAL POSITION

consolidated statement for years ended December 31 (thousands of dollars)

	1975	1974
WORKING CAPITAL PROVIDED BY		
Net earnings	$ 6,427	$14,938
Charges not affecting working capital		
Bond issue discount and expense	812	—
Depreciation	9,162	7,267
Increase in deferred income taxes	7,447	8,573
GENERATED FROM OPERATIONS	23,848	30,778
Proceeds from issue of First Mortgage Sinking Fund Bonds, Series C	34,188	—
Term loan	—	13,000
Sale of fixed assets	72	130
	58,108	43,908
WORKING CAPITAL USED FOR		
Expenditures on fixed assets	76,540	49,997
Reduction of long-term debt	590	5,375
	77,130	55,372
DECREASE IN WORKING CAPITAL	19,022	11,464
WORKING CAPITAL at beginning of year	2,726	14,190
WORKING CAPITAL (DEFICIENCY) at end of year	$(16,296)	$ 2,726

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the financial position and results of operations of The Great Lakes Paper Company, Limited and all its subsidiary companies.

FOREIGN EXCHANGE

Current assets and current liabilities in foreign currencies are translated into Canadian dollars at current rates of exchange at the date of the balance sheet. Fixed assets and items affecting earnings are converted at rates of exchange in effect at the dates of the transactions.

INVENTORIES

In general, inventories are valued at average cost which is less than net realizable value.

FIXED ASSETS AND DEPRECIATION

Fixed assets are recorded at cost. The cost and related accumulated depreciation of items disposed of are removed from the accounts and any gain or loss is included in earnings. Depreciation is based on the estimated economic lives of the assets, using the following methods and composite rates of depreciation:

Pulp and paper mill buildings and machinery	4½% straight line
Building products buildings and machinery	10% straight line
Woodlands improvements and equipment	30% diminishing balance

No depreciation is charged on major improvements or expansions until construction has been completed.

DEFERRED INCOME TAXES

Income taxes are charged against earnings based on the items included within the determination of those earnings, irrespective of any timing difference for the recognition of certain items under current tax legislation. The excess of the income taxes charged to earnings over the amount actually payable in any year is set aside as deferred income taxes to be drawn upon in future years when tax payments exceed the amount charged to earnings.

INTEREST ON LONG-TERM DEBT

Interest on long-term debt incurred to finance major expansion programs is capitalized during the construction period.

FULLY DILUTED EARNINGS PER SHARE

Fully diluted earnings per share are determined on the assumption that options and purchase warrants outstanding at the end of each year were exercised at the beginning of that year and the funds therefrom invested to produce a return at the average interest rate for 90-day bank certificates of deposit.

2. Fixed Assets (thousands of dollars)

	December 31, 1975 Cost		December 31, 1974 Net Value
	Cost	Net Value	Net Value
Land	$ 476	$ 476	$ 476
Buildings and machinery			
Pulp and paper	145,918	53,947	52,802
Building products	23,243	20,904	3,490
Woodlands improvements and equipment	15,200	4,074	3,600
Timber licences	3,945	—	—
Construction in progress	95,460	95,460	47,187
	$284,242	$174,861	$107,555

3. Expansion Program

The estimated cost to complete the company's expansion program is $57.4 million of which $17.3 million is committed at December 31, 1975. The estimated cost to complete includes an amount of $5.9 million which will be provided from the lease arrangements described in note 4.

4. Lease Commitments

The company has signed leases (with options to purchase) covering certain portable camp buildings and mobile equipment for terms of three to 11 years. The payments under these leases amounted to $1.9 million in 1975. Based on leases in effect at December 31, 1975 payments over the next five years will amount to approximately $3 million in each of the years 1976, 1977 and 1978, $2 million in 1979 and $1.4 million in 1980. In addition, under a 1974 agreement, the company has $9.2 million of lease financing available for the acquisition of woodlands camp buildings and mobile equipment over the next three years. The terms of these leases will be similar to those described above.

5. Bank Indebtedness

The bank indebtedness is secured by an assignment of accounts receivable and charges on inventory.

6. Long-Term Debt

Payments required to meet sinking fund provisions of the First Mortgage Bonds over the next five years approximate $600,000 in each of the years 1976 and 1977, $1.3 million in 1978, $1.4 million in 1979 and $1.5 million in 1980.

Canadian Pacific Securities Limited, a wholly-owned subsidiary of Canadian Pacific Investments Limited, the majority shareholder in the company, agreed in 1974 to provide term financing of up to $40 million in connection with the expansion program. The agreement provides for a floating rate of interest and repayment over a five-year period commencing in 1977 with the right to prepay. The amount utilized to December 31, 1975 was $13 million. The company expects to utilize the remainder of the term financing and, accordingly, principal repayments, excluding the prepayment provision, would be $8 million in each of the years 1977 to 1981.

7. Common Shares

Common shares were reserved at December 31, 1975 for the following:

(a) 200,000 shares for the common share purchase warrants which accompanied the First Mortgage Sinking Fund Bonds, Series B. The warrants are exercisable at $33.00 per share until July 1, 1979.

(b) 100,000 shares for a purchase option granted to Canadian Pacific Investments Limited. The option is exercisable at $24.00 per share until January 1, 1982. Both the number of shares and the price per share are subject to adjustment in the event additional shares are issued, other than pursuant to the warrants described above, or other changes in the company's capital structure.

8. Dividend Restrictions

The trust deeds securing the First Mortgage Bonds contain dividend restrictions. The most restrictive of these requires that after any dividend is declared working capital (which for these purposes is before the deduction of the current portion of long-term debt) must be over $10 million and shareholders' equity must be over $50 million.

A further dividend restriction is imposed by the Federal Anti-Inflation Legislation described in note 13.

9. Interest on Long-Term Debt

Interest on long-term debt for the year amounted to $6.8 million ($2.3 million in 1974). Of this amount, interest on the First Mortgage Sinking Fund Bonds, Series C and the Term Loan in the amount of $5.2 million ($600,000 in 1974) has been capitalized in accordance with the accounting policy described in note 1. Interest in the amount of $1.1 million earned on the temporary investment of the proceeds from the issue of the First Mortgage Sinking Fund Bonds, Series C has been offset against the $5.2 million referred to above.

10. Bond Issue Discount and Expense

The discount and expense on long-term debt issued during the year in the amount of $812,000 has been charged to earnings since the annual amortization of this amount in future years would not be material.

11. Executive Remuneration

In 1975 directors' fees amounted to $50,000 and the total remuneration, including directors' fees, received by the directors and senior officers amounted to $425,000.

12. Past Service Pension Costs

Past service pension costs, resulting from retroactive increases in benefits in prior years, are being funded and charged to earnings in equal annual instalments to 1989. Based on recent actuarial reports, the unfunded amount was $3.5 million at December 31, 1975.

13. Federal Anti-Inflation Legislation

The company is subject to the Anti-Inflation Act which provides, as from October 14, 1975, for the restraint of profit margins, prices and compensation. In the opinion of management, the provisions of this Act have had no effect on the company's earnings for the year ended December 31, 1975.

The Act also provides for limitations on the amount of dividends which may be declared. The impact of these limitations on the company can only be determined at the time of declaration of a dividend.

14. Strike

All of the company's operations have been shut down from September 5, 1975 by a strike of mill workers represented by the Canadian Paperworkers Union.

NEWSPRINT PAPER

The United States is Canada's principal customer for newsprint and accounts for approximately 50 percent of the non-communist world's consumption. The following table, based on reports issued by Canadian Pulp and Paper Association (CPPA), indicates the size and growth of newsprint markets over the period 1966 through 1975. World totals in newsprint omit communist countries for which reliable information is lacking.

	1966	1967	1968	1969	1970	1971	1972	1973	*1974	1975
					(millions of tons)					
Free-world production capacity	19.1	20.4	21.5	22.4	23 3	23.7	24.1	24.5	24.0	24.5
Free-world production	18.1	18.1	18.9	20.6	21.1	20.7	21.5	22.3	22.5	20.1
Canadian production capacity	8.9	9.3	9.7	9.7	9.8	10.2	10.3	10.3	10.0	10.2
Canadian production	8.4	8.1	8.0	8.8	8.7	8.5	8.8	9.1	9.5	7.7
Canadian exports	7.8	7.3	7.4	8.1	8.0	7.6	8.1	8.3	8.7	6.9
Canadian exports to U.S.	6.6	6.3	6.1	6.4	6.2	6.1	6.4	6.9	6.9	5.5
Total U.S. consumption	9.2	9.2	9.3	9.9	9.7	9.8	10.5	10.8	10.2	9.1

Source: American Newspaper Publishers Assoc. and CPPA (1975 estimated)

*Tonnage from 1974 on reflects the change in basis weight from 32 to 30 pounds that occurred generally throughout the newsprint industry in North America.

BLEACHED KRAFT PULP

Bleached kraft pulp is included in the general commodity classification of paper grade chemical pulp. North America and Scandinavia are the major suppliers of paper grade chemical pulp, having a production capacity in 1975 of approximately 66.2 million tons or 70 percent of the world's total production capacity. The bulk of the pulp produced by these countries is captive production for internal use by the producers or affiliated companies. The balance, known as market pulp, is available for sale on the open market. Most of this market pulp consists of bleached kraft pulp. In 1975 the production capacity in North America and Scandinavia for market bleached kraft pulp was approximately 13.3 million tons of which Canadian production capacity amounted to approximately 45 percent, or 6.0 million tons.

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
					(millions of tons)					
Paper Grade Chemical Pulp										
North American and Scandinavian production	42.5	43.8	47.2	50.8	52.2	51.5	55.1	58.8	59.7	51.8
Bleached Kraft Pulp										
North American and Scandinavian production	15.4	16.9	19.1	21.1	22.5	22.7	24.4	26.6	27.6	24.4
Bleached Kraft Market Pulp										
Total demand for North American and Scandinavian production	5.8	6.2	7.6	9.0	9.6	8.4	10.4	11.5	11.7	9.4
Canadian shipments	2.1	2.4	3.0	3.7	3.7	3.7	4.4	4.9	5.3	4.0
Canadian exports to U.S.	1.2	1.2	1.3	1.7	1.5	1.5	1.8	1.9	2.0	1.5
Total U.S. supply (including imports)	2.4	2.2	2.5	3.1	2.7	2.8	3.6	3.6	3.6	2.8

Source: CPPA (1975 estimated).

LUMBER

Residential construction provides the principal use for softwood lumber produced in Canada and the U.S., a substantial portion of which is stud lumber. The following table indicates the level of housing construction and the sources of softwood lumber production in North America over the past ten years.

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
					(millions)					
North American housing starts	1.3	1.5	1.7	1.7	1.6	2.3	2.6	2.3	1.6	1.4
Seasonally adjusted year-end rate of North American housing starts	1.1	1.5	1.8	1.6	2.1	2.6	2.6	1.7	1.0	1.6
Softwood lumber production					(billions FBM)					
U.S.	28.0	27.1	28.9	28.3	27.4	29.7	31.4	31.3	28.0	26.0
British Columbia	7.3	7.1	7.8	7.7	7.7	8.9	9.5	10.3	8.8	7.2
Rest of Canada	2.7	2.6	3.0	3.3	3.1	3.3	3.9	4.9	4.3	3.5
Total	38.0	36.8	39.7	39.3	38.2	41.9	44.8	46.5	41.1	36.7

Sources are: Statistics Canada, U.S. Bureau of Census, National Assn. of Home Builders (U.S.), Western Wood Products Assn. and Southern Forest Assn., National Forest Products Assn. (1975 estimated).

BOARD

Waferboard is a relatively new construction board produced primarily in Canada. It competes in its uses with the exterior grades of softwood plywood sheathing which represent approximately 50 percent of all softwood plywood production. Statistics are not available for periods prior to 1973.

Particleboard is an established interior grade of board used primarily in the furniture and cabinet-making industry. Canada's consumption of this product has grown at a rate of 15 percent per year over the last ten years. This growth has been supplied increasingly by imports from the U.S.

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
					(billions of square feet)					
Softwood plywood (⅜-inch basis)										
U.S. production	12.0	12.5	14.0	13.5	13.8	15.8	17.8	18.3	17.1	18.7
Canada production	1.5	1.3	1.5	1.5	1.5	1.8	2.0	2.1	2.1	2.0
Waferboard (⅜-inch basis)										
Canada production								.1	.1	.2
Particleboard (¾-inch basis)										
U.S. production	1.0	1.1	1.4	1.7	1.8	2.4	3.3	3.9	3.5	3.5
Canada production	.1	.1	.1	.1	.1	.2	.2	.2	.2	.2

Source: Dept. of Industry, Trade and Commerce (1975 estimated).

OUR SHIPMENT SUMMARY: LAST TEN YEARS

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
					(thousands of tons)					
Newsprint	374	362	315	351	335	341	339	414	347	267
Chemical pulp	89	131	157	168	185	166	166	186	177	110
Total	463	493	472	519	520	507	505	600	524	377
Stud lumber (millions of board feet)								5.0	31.6	32.4
Waferboard (millions of sq. ft.—⅜-inch thickness)										13.7

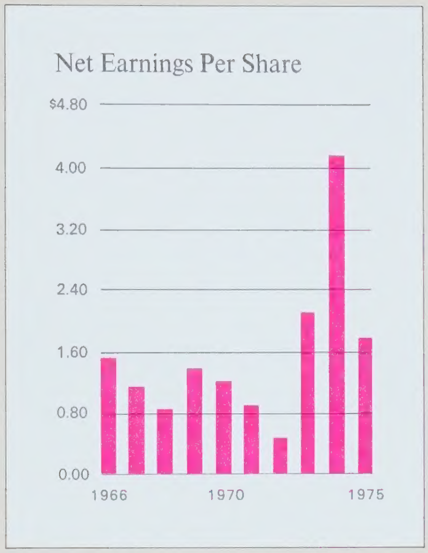
While board products are manufactured in varying thicknesses, for comparative purposes with the industry statistics above our shipment volume is shown here on a ⅜-inch equivalent basis.

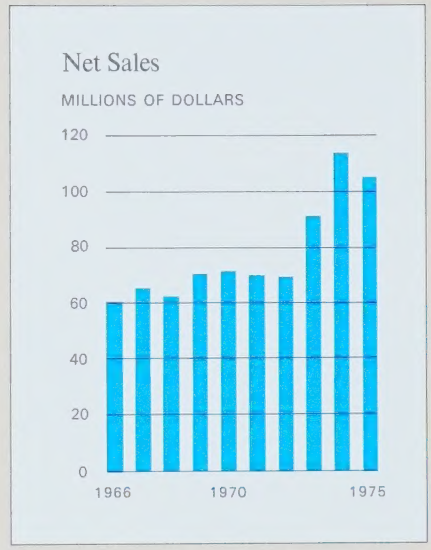
FINANCIAL SUMMARY: LAST TEN YEARS

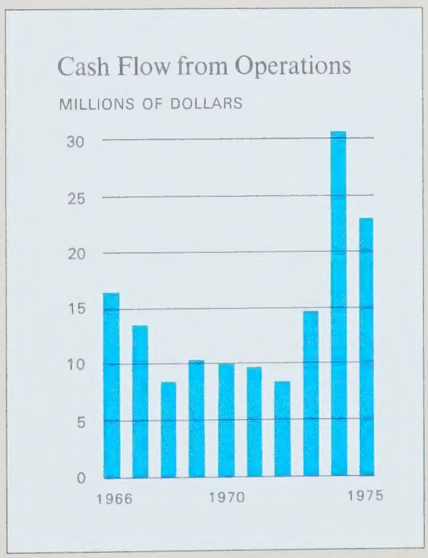
Except as indicated, dollars are in thousands with 000 omitted	1975	1974	1973	1972	1971	1970	1969
SALES & EARNINGS							
Net sales: pulp and paper	100,508	110,977	92,237	69,433	71,010	71,822	71,267
building products	5,259	3,465	584	—	—	—	—
total	105,767	114,442	92,821	69,433	71,010	71,822	71,267
Operating profit	24,494	35,441	21,360	10,892	13,446	15,728	17,951
Interest expense	2,764	1,733	1,859	2,043	2,306	2,537	2,036
Depreciation	9,162	7,267	6,454	6,085	5,843	5,873	6,528
Earnings before income taxes	11,815	26,625	13,161	2,927	5,747	8,820	10,446
Income taxes	5,388	11,687	5,540	1,319	2,510	4,475	5,407
Net earnings	6,427	14,938	7,621	1,608	3,237	4,345	5,039
Net earnings per share	1.78	4.14	2.11	0.45	0.90	1.21	1.40
Dividends declared, total amount	—	—	—	1,081	2,342	3,603	3,603
Dividends per share; in cents	—	—	—	30	65	100	100
ASSETS & LIABILITIES							
Current assets	30,185	27,692	30,191	24,940	25,535	33,324	41,073
Current liabilities	46,481	24,966	16,001	11,790	13,124	12,718	14,739
Ratio of above assets to liabilities	.6	1.1	1.9	2.1	1.9	2.6	2.8
Working capital (deficiency)	(16,296)	2,726	14,190	13,150	12,411	20,606	26,334
Inventories, described in balance sheet	25,129	15,761	10,874	10,260	9,753	9,279	9,440
Fixed assets, see notes to financial statements	284,242	207,999	158,378	147,718	143,808	132,877	126,227
Accumulated depreciation and depletion	109,381	100,444	93,423	87,892	82,242	76,630	71,392
Long-term debt	65,060	30,650	23,025	25,430	27,766	32,167	36,970
Above debt as percentage of capitalization	52.1	36.5	37.5	45.4	48.0	52.5	56.5
Deferred income taxes	33,751	26,304	17,731	16,963	16,155	15,525	15,780
Retained earnings, at year end	57,004	50,577	35,639	28,018	27,491	26,596	25,854
EQUITY & OTHER DATA							
Common shares outstanding, at year end	3,610,029	3,610,029	3,610,029	3,602,603	3,602,603	3,602,603	3,602,603
Number of shareholders	3,529	3,745	4,035	4,470	4,919	5,209	5,418
Percentage of shares held in Canada	96.9	96.9	97.0	96.0	95.5	95.3	93.1
Shareholders' equity, total	59,754	53,327	38,389	30,583	30,056	29,161	28,419
Shareholders' equity per share	16.55	14.77	10.63	8.49	8.34	8.09	7.89
Cash flow from operations	23,848	30,778	14,843	8,501	9,710	9,963	10,317
Cash flow per share	6.61	8.53	4.11	2.36	2.70	2.77	2.86
Net earnings percentage on net sales	6.1	13.1	8.2	2.3	4.6	6.0	7.1
Annual expenditures on fixed assets	76,540	49,997	12,137	4,455	11,191	7,446	2,704
Number of employees on payroll	3,110	3,013	2,778	2,441	2,527	2,768	2,857

All per share figures are based on shares outstanding at the end of the respective years.

1968	1967	1966
62,541	66,192	60,644
—	—	—
62,541	66,192	60,644
14,455	17,511	17,886
1,440	1,673	1,478
6,881	7,506	5,637
6,359	8,510	10,924
3,270	4,300	5,450
3,089	4,210	5,474
0.86	1.17	1.52
3,603	3,602	3,600
100	100	100
21,360	20,655	23,080
14,221	12,485	16,964
1.5	1.7	1.4
7,139	8,170	6,116
9,184	11,464	11,879
124,057	122,643	119,282
65,309	59,111	51,822
21,343	25,686	30,009
43.7	47.8	52.3
17,030	18,480	16,565
24,949	25,463	24,855
602,603	3,602,603	3,600,523
6,202	6,402	6,632
94.2	93.8	93.6
27,514	28,028	27,367
7.64	7.78	7.60
8,520	13,630	16,562
2.36	3.78	4.60
4.9	6.4	9.0
2,222	3,671	13,558
2,693	2,590	3,077







1975 Results by Quarters

Sales and Earnings '000 omitted

1975 Quarterly

Quarter	Net Sales	Oper. Profit	Net Earnings
First	$ 37,794	$12,869	$ 5,859
Second	40,375	11,737	4,757
Third	27,256	5,465	1,190
Fourth	342	(5,577)	(5,379)
	$105,767	$24,494	$ 6,427

Net Earnings Per Share

Quarter	1971	1972	1973	1974	1975
First	$0.09	($0.03)	$0.25	$0.99	$1.62
Second	0.27	0.14	0.55	1.20	1.32
Third	0.26	0.14	0.52	1.59	0.33
Fourth	0.28	0.20	0.79	0.36	(1.49)
	$0.90	$0.45	$2.11	$4.14	$1.78

WOODLANDS EXPANSION

The installation of new woodlands facilities to serve our expanding pulpwood requirements necessitated a heavy construction program in 1975. Two new camps have been established: the first, northwest of Ignace and the second, just east of Savant Lake, which are both shown on the map on page 7. Camp 700 at Savant Lake, shown at top right, can house up to 120 workers and staff in single room accommodation. The dining hall-kitchen unit is shown on page 12. Preparations are underway to complete a third camp northwest of Savant Lake in the early summer of 1976. Each of these units will be capable of producing up to 75,000 cords of wood annually.

Two new rail loading spurs have been completed for transhipment of pulpwood. One is located 28 miles west of Ignace and the other is east of Savant Lake. Savant Lake spur, pictured at left, covers approximately 46 acres. About 5,500 feet of trackage has been laid to serve the spur which will be capable of storing up to 50,000 cords of pulpwood. This facility will handle wood produced by the two Savant Lake camps and a third to be constructed at a later date.

Extensive road construction programs are also underway to serve all the new areas. The picture at lower right shows the pouring of concrete abutments that will support a bridge across the Flindt River southeast of Savant Lake. To date approximately 40 miles of all-weather road have been constructed providing access to the areas that will be served by the three camps mentioned above.